

Message Text

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16

ACTION EB-11

INFO OCT-01 EUR-25 EA-11 ISO-00 AF-10 SPC-03 AID-20 NSC-10

RSC-01 CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PA-04 USIA-15 PRS-01 DRC-01

/190 W

----- 013023

R 020900Z NOV 73

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 7922

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY CANBERRA

AMEMBASSY THE HAGUE

AMCONSUL HONG KONG

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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PASS TREASURY AND FEDERAL RESERVE

EO 11652: NA

TAGS: EFIN JA

SUBJ: TOKYO FOREX MARKET DEVELOPMENTS

SUMMARY: SOMEWHAT MORE FLEXIBLE RATE POLICY ADOPTED BY
BOJ FOLLOWING NAIROBI MODIFIED EVENING OCT 31. IN NEXT TWO
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DAYS RATE ALLOWED TO MOVE UP BY OVER 3 PERCENT IN ORDER TO RE-

DUCE VOLUME OF OFFICIAL INTERVENTION. FORWARD RATES ROSE EVEN MORE RAPIDLY WITH SIX MONTH FORWARD CLOSING AT OVER Y280 LEVEL. THIS WEEK'S MARKET PRESSURES REPRESENT SHARP CHANGE IN MARKET'S RATE EXPECTATIONS HELD TWO WEEKS AGO.

1. DOLLAR IN SPOT MARKET STRENGTHENED SHARPLY IN MOST RECENT TWO TRADING DAYS FOLLOWING DECISION BY GOJ AUTHORITIES TO RAISE INTERVENTION LEVEL IN SPOT MARKET. DECISION WAS MADE EVENING OCT 31 TO RAISE INTERVENTION RATE TO Y270.0 PER DOLLAR FOR TRADING THURS, NOV 1, WITH DECISION TO RAISE INTERVENTION RATE STILL FURTHER TO Y275.0 PER DOLLAR TAKEN FOR FRIDAY, NOV 2. SPOT DOLLAR RATE OF Y275.0 ON FRI WAS UP Y8.35 FROM MONDAY'S CLOSE. TOTAL VOLUME IN THE SPOT MARKET RECORDED \$1,005 MIL FOR THE WEEK, WITH THURS AND FRI'S VOLUME AT \$188.0 MIL AND \$264.6 MIL RESPECTIVELY. BOJ OFFICIAL STATED THAT TOTAL CENTRAL BANK INTERVENTION (DOLLAR SALES) AMOUNTED TO APPROX \$800 MIL FOR THE WEEK, WITH NEARLY HALF THIS AMOUNT DONE IN LAST TWO TRADING DAYS. SAME OFFICIAL STATED THAT THERE IS PRESENTLY NO INDICATION OF WHAT BOJ INTERVENTION POLICY WILL BE AS MARKET OPENS NEXT WEEK. HE DID, HOWEVER, MAKE MENTION OF RUMOR IN TOKYO THAT POSSIBLE INTERVENTION LEVEL MIGHT BE AREA OF Y277-278 PER DOLLAR SINCE THIS REPRESENTED YEN/ DOLLAR PARITY LEVEL FOLLOWING 10 PERCENT DOLLAR DEVALUATION IN FEB 73.

2. FORWARD DOLLAR RATES ALSO MOVED UP SHARPLY DURING WEEK, PRIMARILY AS RESULT OF STRONG SPECULATIVE PRESSURES. THREE-MONTH FORWARD (FEB DELIVERY) CLOSED ON NOV 2 AT Y280.00, UP Y13.42 FROM MONDAY'S CLOSE. SIX-MONTH FORWARD (MAY DELIVERY) CLOSED WEEK AT Y280.50 UP Y14.08 FROM MONDAY'S CLOSE. END OF WEEK CLOSE FOR THREE-MONTH FORWARD REPRESENTED PREMIUM OF 7.27 PERCENT WHILE THAT FOR SIX-MONTH FORWARD REPRESENTED PREMIUM OF 4.0 PERCENT. TOTAL VOLUME IN THE FORWARD MARKET WAS \$726.0 MIL, UP SHARPLY FROM PREVIOUS WEEK. TOATL VOLUME IN THE SWAP MARKET REGISTERED \$189.6 MIL. COMMENTARY: TRADING COMPANIES REPORTEDLY SETTLING IMPORT BILL WITH SUBSIDIARIES AND BRANCHES NOW INSTEAD OF DEC AS USUAL. SMALLER FOREX BANKS ALSO COVERING SHORT DOLLAR POSITION. MARKET PSYCHOLOGY IS OVERWHELMINGLY BEARISH, AT LEAST FOR LIMITED OFFICIAL USE

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NEAR TERM. ONE FACTOR IS PRESS LEAK THAT MOF USING "HYPOTHETICAL" RATE OF Y270 FOR PURPOSES OF PLANNING JFY 74 BUDGET. ANOTHER IS REALIZATION THAT INCREASED OIL PRICES INCLUDING INDONESIAN OIL COULD RAISE ANNUAL IMPORTS BY AS MUCH AS \$1-1/2 BIL. NOT CLEAR WHETHER COMPANIES AND BANKS HAVE MADE FUNDAMENTAL CHANGE IN B/P AND TRADE PROJECTION. NEVERTHE- LESS, FINANCIAL SOURCES EMPHASIZE WEAKNESS IN JAPAN'S TRADE POSITION THIS YEAR WHICH LIKELY TO CONTINUE AND FACT THAT

GENERAL DEFICIT LIKELY TO REMAIN LARGE. MARKET ANALYSTS STILL
FAIL TO RECOGNIZE THAT LARGE OVERALL DEFICITS DUE USUALLY TO
HEAVY BANK BORROWING TO FINANCE SYNDICATED LOANS. MOF
OFFICIAL (FUJIOKA) SAYS NO CONSIDERATION BEING GIVEN AT THIS
TIME TO CHANGE FOREX REGS WHICH WILL PERMIT INFLOWS OF FOREIGN
FUNDS. NEVERTHELESS, TO EASE MARKET PRESSURES GOJ THIS WEEK
RESCINDED FOREX CONTROL MEASURE SO AS TO PERMIT PROCEEDS OF
FOREIGN BONDS ISSUED IN JAPAN FOR NON-SPECULATIVE PURPOSES
(I.E., TO PROCURE GOODS AND SERVICES IN JAPAN OR ELSEWHERE),
TO HOLD PROCEEDS IN FREE YEN ACCOUNT WITHOUT TIME LIMIT.
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